

EXHIBIT 7
DATE 2/16/09
HB 254

**Statement of PPL Montana
Before the Natural Resources Committee
Of the Montana House of Representatives
In Opposition to House Bill No. 254
February 16, 2009**

**Mark Lambrecht, Manager, Regulatory Affairs
208 N. Montana Avenue, Ste. 204
Helena, Montana 59601
(406) 422-1092**

Mr. Chairman and members of the Committee:

I'm Mark Lambrecht, Manager of Regulatory Affairs for PPL Montana—operator of the Colstrip Steam Electric Station. I'm here on behalf of PPL Montana and the co-owners of the Colstrip plant, including Avista Corporation, NorthWestern Energy, PacificCorp, Portland General Electric and Puget Sound Energy. PPL also owns and operates the J.E. Corette Steam Electric Station in Billings and eleven hydroelectric facilities in Montana.

PPL Montana does not object to reporting greenhouse gas emissions from its coal-fired generation facilities. In fact, we already report our carbon dioxide emissions on a quarterly basis to the Montana Department of Environmental Quality and in 2008 we voluntarily reported greenhouse gas emissions to the Carbon Disclosure Project—an international collaboration of investor groups—and CERES—a national coalition of investors, environmental groups and other public interest organizations.

However, we oppose this bill as written because it would lead to participation in the regional greenhouse gas reporting program being developed by the Western Climate Initiative (WCI). The WCI is a regional partnership of 11 states and Canadian provinces that seeks to implement a regional greenhouse gas reporting protocol and carbon cap and trade program. Montana is a full member of that organization. The WCI has already prepared draft guidelines for a greenhouse gas reporting protocol, several of which are onerous and costly. Moreover, the Climate Registry, a national nonprofit corporation based in Los Angeles, has already developed a draft greenhouse gas reporting protocol for the electric power sector. The Registry assumes its protocol will be adopted by the WCI and then handed down to the participating states for adoption. I was invited to be a member of the Registry's technical advisory panel last year and have been working to change some of its onerous and costly requirements.

We believe carbon trading and reporting should be implemented on a national scale to avoid an inefficient and costly patchwork of state-by-state and regional programs. On January 13, 2009 the federal Environmental Protection Agency announced it will propose a national greenhouse gas reporting rule this spring. Because the EPA has announced its plans to propose a reporting rule, development of a Montana rule would be inefficient and a waste of Montana resources. In any event, should the Legislature move forward with its own rule, the federal rule should have primacy.

We have four specific objections to guidelines and protocols being developed by the WCI and Climate Registry.

(1) Third party verification

Both the WCI and the Climate Registry would require industries to measure, report and monitor greenhouse gas emissions. Industries would be required to hire consultants to provide third party verification of these reports. This assumes neither industries nor the regulating agencies can be trusted to provide accurate, honest greenhouse gas data.

The Legislature should be aware that carbon dioxide emissions at the Colstrip and Corette plants have Continuous Emissions Monitoring Systems. These are permanently affixed devices that provide constant, accurate data that cannot be manipulated. These systems are used to report sulfur dioxide and nitrogen oxide emissions—without third party verification—for the federal acid rain program—one of the most successful environmental regulatory programs in history. Continuous emissions monitors also accurately measure carbon dioxide emissions. Why should CO2 emissions be subject to more stringent verification requirements than other gases?

Third party verification requirements would also be difficult to implement in Montana. Both protocols would mandate that companies only hire certified consultants who do not perform other work for them. As you can imagine, Montana has a limited number of environmental consulting firms that already consult for many Montana industries. To make matters worse, the Registry would require that a consulting firm hired to verify emissions can only perform that work for five years while the WCI would require a change in consultants after six years. After that, a company must hire a new consultant that isn't under contract to perform any other work for them.

We are aware that verification of emissions would be required for participation in a regional cap and trade program, but do not believe the markets that would administer such a program require such onerous verification obligations. In fact, I recently discussed this issue with representatives from the Chicago Climate Exchange and its third party verifier—the Financial Industry Regulatory Authority. They confirmed that participation in the market does not require such onerous restrictions on verifiers.

A carbon trading program would set a cap on carbon emissions and issue allowances or units of carbon on a per-ton basis to industries and other entities that could be purchased in an auction or traded on the market. The cap would be lowered over time, prompting industries to stay under the cap by reducing emissions or by purchasing allowances to keep operating over the cap. Allowances would eventually increase in expense, making investment in emissions reduction the cost-effective alternative.

(2) Double counting of emissions

The Climate Registry protocol, if adopted into the WCI, would cause double counting of greenhouse gas emissions. It would not only require generating companies to report the emissions from their plants, but also require their customers to report emissions on the power they purchase...

Double counting would also distort emissions reporting from local governments. A municipality would be able to count the emissions from a power plant within its jurisdiction as part of its own inventory while those emissions were already counted by the facility.

Double counting would cause inequity in a carbon trading program. If double counting were allowed, it would introduce uncertainty into GHG inventories and skew the value of allowances.

Greenhouse gas emissions should only be counted at the sources from where they're emitted. The rule here should be to keep it simple. Firm baselines need to be established so that appropriate reduction levels can be assigned.

(3) De Minimis emissions

The WCI guidelines allow facilities to designate as De Minimis no more than three percent (not to exceed 20,000 metric tons) of a source's greenhouse gas emissions. That means a facility like Colstrip would be able to use simplified calculation methods and estimates for only 20,000 metric tons of its emissions. We would like to know how these levels were established. Were they established according to the emissions from a typical coal-fired generating plant or were they assigned arbitrarily?

Colstrip's annual emissions of CO₂ are 18 million metric tons. Its CEMS have a margin of error of less than one percent—as allowed by federal rule. A one percent reporting error represents 180,000 tons of CO₂ at Colstrip. How is a facility of this size supposed to accurately measure and report on emissions greater than the 20,000 but less than 180,000 metric tons when the best available monitoring technology can't do it?

A DeMinimis emissions level should be established on a percentage basis only.

(4) Insignificant emissions

The Climate Registry's protocol requires counting of insignificant emissions such as those from mobile sources, coal storage and cooling units and even methane from hydroelectric generation reservoirs. Developing methods and equipment to measure insignificant emissions will be costly and does not add commensurate value to a reporting protocol.

Funding

This bill also requires that air quality permit fees be used to pay for a Montana greenhouse gas reporting program. It's important for the members of this committee to keep in mind that air permitting fees are to be used for criteria air pollutants as designated by federal and state air quality standards. These include carbon monoxide, lead, nitrogen oxide, particulate matter and sulfur dioxide. They do not include greenhouse gases. We believe the appropriate funding source for such a program would be revenues the State of Montana would realize from participation in a regional or federal cap and trade program.

Conclusion

The Legislature should support the national reporting requirement being developed by the EPA. If the Legislature determines that reporting should be required before a national program is adopted, then the national program must replace any separate state requirements. In today's economic climate, corporations face challenging economic decisions and the requirement for separate but potential duplicate reporting requirements serves no environmental benefit and is not justifiable.

As you can see, greenhouse gas reporting is a complex issue. Please consider the issues I described carefully before acting on this bill.

Thank you for the opportunity to comment.